



Investing in niche sectors in the lower middle market

Argosy Real Estate Partners has spent more than 15 years building a differentiated strategy focused on the lower middle market – a segment of commercial real estate that large institutional “megafunds” are generally constrained from accessing. Argosy has also developed substantial expertise in emerging and established alternative property sectors. Co-CEOs David Butler and Andrew Stewart discuss why these dual areas of expertise position the firm for success in today’s market environment.

You have described Argosy's focus as the lower middle market in commercial real estate. What does that mean in practice, and why does it matter?

David Butler: In practical terms, we target equity investments of \$5 million to \$25 million. This segment represents the vast majority of transaction volume in U.S. commercial real estate, yet remains difficult for large-scale institutional capital to access. These investments are typically too small for traditional institutional investors and too large for syndicated high-net-worth capital. Argosy makes controlling joint venture equity, participating preferred equity, and co-GP investments alongside operating partners in this underserved market segment.

The structural challenge for large funds is one of efficiency – deploying multibillion-dollar “megafund” vehicles into smaller, lower middle-market transactions is inherently difficult because execution is local and property ownership is fragmented. As an increasing share of capital is raised by these large-scale funds, we are not directly competing with these groups; rather, we are operating in a segment of the market they are not designed to serve. The result is a market segment with deep transaction flow and comparatively less competition. Additionally, Argosy’s deep experience across both value-added and distressed strategies positions us well to capitalize on the current opportunity set in the lower middle market.

Argosy has been investing in alternative property sectors since well before they recently became more mainstream. How did that strategic direction develop, and why do you find these sectors attractive?

Andy Stewart: When we were investing our first opportunistic fund in the after-

math of the GFC, alongside traditional property types, we began to identify opportunities in certain emerging asset types that were underfollowed but supported by durable demand drivers, e.g., alternative property sectors. Fragmented ownership and limited institutional penetration can create access advantages and pricing inefficiencies, while operational intensity can increase the potential to create alpha. Additionally, structural supply constraints can help to support rent growth and occupancy resilience.

“We aren't waiting for the perfect market to begin investing in this new real estate cycle. We are built to capitalize on the current one.”

Emerging and established alternative property sectors have historically represented approximately 50 percent to 70 percent of our opportunistic fund allocations. These include build-to-rent, active adult, industrial outdoor storage, cold storage, lodging, life sciences, mid-scale data centers and residential land – sectors in which we have invested across multiple cycles. At the same time, given our flexible fund mandate, Argosy retains the ability to selectively invest in traditional property sectors. This flexibility allows us to allocate capital dynamically based on relative value rather than pure sector bias. We believe investors should target a balanced allocation of traditional asset types and alternative properties. The lower correlation of alternative property sectors to traditional property sectors can be a meaningful driver of portfolio diversification.

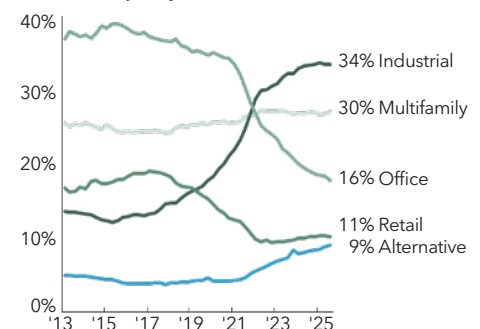
Why is your firm's experience in alternative property sectors especially relevant today?

Butler: Updates to NCREIF’s inclusion criteria in 2024 for core open-end ODCE funds have been a meaningful development for alternative property sectors.

These changes allow certain alternative property subtypes to be included within core asset type categories, enabling up to 50 percent of ODCE funds to be invested into property sectors historically considered “alternatives,” compared to the current allocation of only approximately 9 percent.¹ As a result, institutional core capital is increasingly re-allocating toward these sectors, which have historically outperformed traditional asset types across economic cycles. The public REIT market already reflects the growing allocation to alternative property sectors, which now comprise approximately 60 percent of the total market capitalization.

We believe this creates a compelling opportunity to acquire and develop core-quality alternative assets through both value-add and development strategies, positioning them for acquisition by open-ended core funds to satisfy the evolving ODCE allocation targets. Additionally, our platform is designed to aggregate sub-scale alternative property investments into institutional-quality portfolios, with the potential to achieve portfolio-level pricing premiums.

ODCE Property Sector Breakdown²



The current CRE environment has been challenging – elevated interest rates, compressed transaction volumes, bid-ask spreads that have been slow to close. Why is Argosy leaning in now rather than waiting for the “all clear” sign?

Stewart: The current environment is characterized by dislocation: viable assets and capable operators constrained by broken capital structures and outdated financing assumptions. We believe this

creates opportunities for experienced investors like us.

A significant portion of ownership in the lower middle market consists of non-institutional investors facing maturities or recapitalization challenges without clear solutions. Our ability to move quickly, underwrite complexity and structure transactions at this scale allows us to step into situations where larger funds cannot effectively compete.

Importantly, this is not a newly developed strategy being applied to the current environment. Argosy's approach has been tested across multiple cycles, including the GFC, COVID and the recent interest-rate dislocation.

Please describe the benefits of Argosy's execution model of partnering with operators.

Stewart: We maintain close relationships with our specialized operating partners – “sharpshooters” who possess deep local market knowledge and execution capabilities. These firms are typically smaller entrepreneurial firms with strong track records and expertise in specific property types or geographies. Operating partners co-invest meaningfully alongside us, aligning interests, while also mitigating risk to our funds through deal pursuit cost funding, development cost overrun protections and any required loan guarantees. Argosy provides institutional oversight, including macro-economic perspective, capital markets expertise, reporting and governance, while maintaining major decision-making control within the joint venture. In this environment, we also see a particularly compelling opportunity to provide co-GP capital to operating partners

“In many cases, our role is not to create value from scratch but to unlock value that is already present, yet constrained by capital structure inefficiencies.”

across both alternative and traditional property sectors.

Why is a lower middle-market allocator fund an efficient way to access alternative property sectors?

Butler: As discussed earlier, large allocator funds have structural challenges accessing the lower middle market. There are also relatively limited operator fund options for investors seeking exposure to alternative property sectors, particularly in emerging alternative property sectors. Argosy's long-standing relationships with specialized operators enhance access to differentiated deal flow within these sectors. The operational intensity of these investments creates greater potential for alpha generation, favoring experienced, entrepreneurial operators that many investors may not be able to access directly through operator funds. Many of these operators have not achieved sufficient scale to raise their own funds or have no intention of doing so, instead remaining focused on a limited number of transactions. These dynamics create substantial “white space” for Argosy to operate within the lower middle market, particularly in the alternative property sectors.

Argosy has also built a significant Opportunity Zone platform. How does that fit within the broader firm, and why do you see the program as an attractive investment option today?

Stewart: We established our Qualified Opportunity Zone platform in 2019 as a natural extension of our lower middle-market real estate investment strategy. Since then, we have raised approximately \$450 million across two funds and completed 26 Opportunity Zone investments. According to Novogradac, this places Argosy among the top 2 percent of all managers globally by Opportunity Zone capital raised.³

Each investment is evaluated first and foremost on its stand-alone risk-adjusted return profile, irrespective of its Opportunity Zone designation. The platform leverages the same sourcing network, operating partner relationships, and underwriting discipline that define our other fund business lines. The primary distinction is the tax-efficient structure, which allows investors to defer and potentially reduce existing capital gains, and in certain cases eliminate capital gains taxes on qualifying long-term investments. We believe that the new permanent Opportunity Zone 2.0 program that begins on Jan. 1, 2027, is well-timed with the early stages of a new real estate cycle that should result in strong upcoming fund vintages.

¹ Based on current ODCE inclusion criteria; expanded subtypes within the four major property types are capped at 25 percent of gross real estate value, plus up to 25 percent may be allocated to “other” property types; actual allocations may differ.

² Green Street, February 2026.

³ The methodology was achieved by ranking all QOF managers tracked by Novogradac by total equity raised and determining Argosy's position, then dividing Argosy's ranking (19th) by the total number of QOF managers (1,037) tracked by Novogradac through Dec. 31, 2025.

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CORPORATE OVERVIEW

Argosy Real Estate Partners is a real estate investment manager focused on opportunistic, core-plus, and Opportunity Zone strategies within the lower middle market (generally \$5 million to \$25 million equity investments). The firm invests primarily in emerging and established alternative property sectors, including build-to-rent, industrial outdoor storage, cold storage, lodging, life sciences, data centers, and residential land, while maintaining significant expertise in traditional sectors such as multifamily, industrial, retail, and office. Argosy has approximately \$4.0* billion in gross real estate assets under management and invests on behalf of institutional investors, family offices, and high-net-worth individuals across the U.S., Europe, and Asia. The firm has a 38-person team operating across three offices in Wayne (Philadelphia), Pa.; San Francisco; and Denver.

* Gross AUM includes \$4.0 billion of gross assets where AREP holds controlling interests and \$72.2 million of unfunded equity commitments as of Dec. 31, 2025.

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